

LOUISIANA BOARD OF REGENTS
FOR HIGHER EDUCATION
STATE OF LOUISIANA



PROCEDURAL REPORT

ISSUED AUGUST 22, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA
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July 19, 2007

**LOUISIANA BOARD OF REGENTS
FOR HIGHER EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Louisiana Board of Regents for Higher Education for the two years ended June 30, 2007. Our procedures included (1) a review of the Board's internal control; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected Board personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed a recommendation for improvement. We then discussed our finding and recommendation with appropriate management personnel before submitting this written report.

The Annual Fiscal Reports of the Louisiana Board of Regents for Higher Education were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The Board's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

While we did not perform an audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we did perform certain procedures related to compliance with federal laws and regulations in accordance with those standards. Our finding related to federal compliance testing is included in this procedural report and will be included in the Single Audit Report for the State of Louisiana.

In our prior report on the Louisiana Board of Regents for Higher Education, dated April 4, 2005, we reported a finding relating to noncompliance with subrecipient monitoring requirements. This finding has been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Deficiencies in Subrecipient Monitoring

The Louisiana Board of Regents for Higher Education (the Board) did not adequately address allowable costs in its monitoring of subrecipients of the Hurricane Education Recovery Act (HERA) program (CFDA 84.938D). As required by Office of Management and Budget Circular A-133, the Board has procedures to monitor the activities of subrecipients and performs tests for compliance with laws, regulations, and the provisions of contracts or grant agreements. The Board's procedures, however, did not include specific tests to determine if there were other sources of funding for the expenses reimbursed by the HERA program. The HERA grant agreement between the Board and the U.S. Department of Education states that the funds are to provide emergency assistance based upon the demonstrated need of institutions of higher education that were affected by the hurricanes. If an affected institution had another source of funding for expenses reimbursed by the HERA program, the institution may not have a demonstrated need for the reimbursement and unallowable costs could be incurred.

We found that the Board's auditors do perform tests for certain unallowable costs, such as cleanup, repair, and construction, which are not reimbursed by the HERA program. In addition, the subrecipients provided written attestation that funds provided by the HERA program would only be used for expenditures that are not funded with monies from other sources. The Board's subrecipient monitoring procedures, however, did not specifically test management's attestations that there were no other sources of funds for the expenses reimbursed by the HERA program. As a result, the Board's tests of expenses reimbursed by the HERA program may not have detected expenses that were also funded from other sources. As of June 5, 2007, the amount of HERA program expenses that the Board paid to subrecipients during the fiscal year was \$30,865,457.

The Board should expand its subrecipient monitoring procedures to include specific tests for other sources of funding for the expenses reimbursed by the HERA program. Although management responded that it does not concur with the finding, management did outline a plan of action (see Appendix A).

The recommendation in this report represents, in our judgment, that which is most likely to bring about beneficial improvements to the operations of the Board. The nature of the recommendation, its implementation cost, and its potential impact on the operations of the Board should be considered in reaching decisions on courses of action. The finding relating to the Board's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended solely for the information and use of the Board and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", is written over a horizontal line.

Steve J. Theriot, CPA
Legislative Auditor

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REGENTS07

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Management's Corrective Action
Plan and Response to the
Finding and Recommendation

Pat A. Strong
Chair

Scott O. Brame
Vice Chair

Artis L. Terrell, Jr.
Secretary

E. Joseph Savoie
Commissioner of
Higher Education



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June 21, 2007

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Robert W. Levy
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James Klock
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Mr. Steve Theriot, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Legislative Audit Finding for 2006-07 Fiscal Year-Deficiencies in Subrecipient Monitoring

Dear Mr. Theriot:

The Board of Regents is in receipt of the letter from your office dated June 7, 2007, from Angelina Boogaerts, Senior Auditor, indicating a potential audit finding for the Board regarding, in her opinion, perceived deficiencies in subrecipient monitoring. Her finding is that the Board did not adequately address allowable costs in monitoring of subrecipients of the Hurricane Education Recovery Act (HERA) program. This is despite her recognition that the "Board has procedures to monitor the activities of subrecipients and performs tests for compliance with laws, regulations, and the provisions of contracts or grant agreements." Her finding states that the Board's procedures "did not include specific tests to determine if there were other sources of funding for the expenses reimbursed by the HERA program." The finding recommends that the Board expand its sub-recipient monitoring procedures to include specific tests for other sources of funding for the expenses reimbursed by the HERA program to ensure that the institutions had a **demonstrated need** for the funds.

We are compelled to point out that the reference to the condition of "demonstrated need" in the congressional appropriation language, which was repeated in the US Department of Education grant agreement with the Board of Regents, and the intent, meaning and measurement of that condition, has been a point of considerable discussion and debate as the Board of Regents has proceeded to receive and administer the funds appropriated by Congress. The State's Joint Legislative Committee on the Budget, in approving the BA-7 budgeting the funds, raised issues with respect to the degree of "demonstrated need" of each disaster-impacted campus, and after considerable deliberation by their staff, our staff and the impacted institutions, decided on an approach which provided equal dollar amounts of "supplemental" funding for certain institutions, in addition to an agreed upon formula allocation of funds for all impacted institutions. The "supplemental" allocations were fixed dollar amounts for specified institutions and based upon general perceptions by the committee and its staff of more severe impacts at some campuses than others. The committee's assessment of "demonstrated need" in making those supplemental allocations of funds was not based upon any specific measurement of need or intended use of the funds, but upon its judgment that certain schools had more severe disruptions

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and physical damages from the storms, and thus had more “need” for emergency assistance. It should be noted that the final allocation of funds was determined by the US Department Office of Inspector General to be “an acceptable funding allocation plan.”

Clearly, these funds were designed and intended, by Congress, the Joint Legislative Committee on the Budget and the Board of Regents to maintain the survival and viability of institutions of higher education in the hurricane ravaged areas as they struggled to contend with their circumstances in the immediate post-disaster environment. Ultimately, the Board of Regents’ determination of “demonstrated need” was made by assessing the amount of the budget loss from the pre-hurricane budget to the post-hurricane budget for each institution. In all instances the amount of the difference in the two budgets was far greater than the amount of funds awarded to the institutions through the HERA grant program. It is therefore our conclusion that the condition of “demonstrated need” has been met without consideration of the specific expenses for which reimbursement is made.

It should also be noted that the Board staff worked closely with the US Department of Education to resolve various questions concerning the HERA program. In a letter addressed to Mr. Robert Lewis, Deputy Director, US Department of Education, the primary contact on these grant funds, dated March 27, 2006, the Board inquired about compensation for personal services. Specifically, the Board wanted to know, since the cost principles state that the federal government will only pay for items for work specifically tied to the sponsoring agreement, would reimbursement for faculty and staff that were retained in the wake of the hurricanes be allowed. Mr. Lewis, on behalf of the US Department of Education, responded that “personal services costs back to the date of the hurricane would be considered to be under the sponsoring agreement” and thus it was our understanding that personal services costs could be paid with these emergency assistance funds without reference to pre-existing individual employee salary support sources. We would also like to point out that of the \$62,112,692 spent in FY 06 which includes the 13th period, but excludes the \$8.5 million distributed through the Louisiana Office of Student Financial Assistance for student financial aid, the US Department of Education Inspector General audited \$53,302,412 or 86% of the total and had absolutely no findings of misspent grant funds. It should also be noted that all of those expenditures reviewed were for salaries and benefits.

As you are aware, in implementing internal control procedures, there is always a cost benefit-analysis to consider. This analysis is to determine if additional cost expended to control a specific item is worth the benefit of the additional controls. With the degree to which US Department of Inspector General auditors quickly reviewed and audited activities in FY06, it was our understanding that Board of Regents auditors would design their audit coverage to support and complement, but not duplicate, the audit work already performed.

With respect to our monitoring procedures for these funds, the Board did institute internal controls to comply with the HERA grant requirements. The President or Chancellor of each recipient institution, as well as the Chief Financial Officer, certifies on all reimbursement requests that all expenditures reported or payments requested are for appropriate, allowable purposes and in accordance with the provisions of the guidelines for proposal submission and the

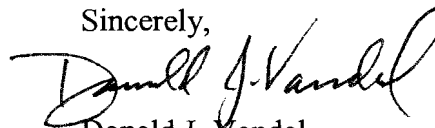
provisions of the award documents. In discussions with your auditors, they recommended that our auditors "inquire" of institution management as to the payment of expenses by other parties. The Board feels the required written certification by the institution officials as to this point should provide appropriate and adequate assurances. These institutions are all recognized and accredited postsecondary education institutions of higher education, familiar with state and federal grant requirements, and understand that there will be appropriate levels of audit review and monitoring of their expenses with the grant funds.

The Board's auditors did follow up on a possible FEMA reimbursement of expenditures presented to the BOR by one of the subrecipients as a result of our guidance from the US Department of Education that the Board should "stay clear of costs associated with clean up, repair and construction". In the case investigated, the Board's auditors determined that FEMA had not paid for the expenditures in question.

In the final analysis, although we do not concur with the finding, the Board will modify the audit plan for the coming year to try to further address the auditor's recommendation. The Board of Regents auditors have been instructed to modify their audit procedures with respect to the HERA funds in order to satisfy the concerns of your auditors.

If my staff or I can provide any additional information on the above, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald J. Vandal". The signature is fluid and cursive, with the first name "Donald" being particularly prominent.

Donald J. Vandal

Deputy Commissioner for Finance and Administration

cc: Wendy Simoneaux
Chris Dalton